

LAFCO Meeting: April 12, 2006

TO: LAFCO

FROM: Neelima Palacherla, Executive Officer *up*

SUBJECT: **Proposed Draft LAFCO Budget FY 2006-2007**
Agenda Item # 6

STAFF RECOMMENDATION

1. Adopt the Draft LAFCO Budget for fiscal year 2006-2007.
2. Find that the Draft FY-07 Budget is expected to be adequate to allow the Commission to fulfill its statutory responsibilities.
3. Authorize staff to transmit the draft budget adopted by the Commission including the estimated agency costs as well as a notice for public hearing on the adoption of the Fiscal Year 2007 Final Budget to each of the cities, the County and the Cities Association.

BACKGROUND

LAFCO Budget and Adoption Process

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000 (CKH Act) which became effective on January 1, 2001, requires LAFCO to annually adopt a draft budget by May 1 and a final budget by June 15 at noticed public hearings. Both the draft and the final budgets are required to be transmitted to the cities and the County. The CKH Act establishes that at a minimum, the budget must be equal to that of the previous year unless the Commission finds that reduced staffing or program costs will nevertheless allow it to fulfill its statutory responsibilities. Any unspent funds at the end of the year may be rolled into next fiscal year budget. After the adoption of the final budget, the County Auditor is required to apportion the net operating expenses of the Commission to the agencies represented on LAFCO.

Apportionment of LAFCO Costs

The CKH Act requires LAFCO costs to be split in proportion to the percentage of an agency's representation (excluding the public member) on the Commission. Since the City of San Jose has a permanent membership on LAFCO, state law

requires costs to be split between the County, the City of San Jose and the remaining cities. Hence the County pays half the LAFCO cost, the City of San Jose a quarter and the remaining cities the other quarter.

The cities' share (other than San Jose's) is apportioned in proportion to each city's total revenue as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county.

The CKH Act requires the County Auditor to request payment from the cities and the County no later than July 1 of each year for the amount each agency owes based on the net operating expenses of the Commission and the actual administrative costs incurred by the Auditor in apportioning costs and requesting payment.

FY 2006-2007 BUDGET TIMELINE

Dates	Staff Tasks / LAFCO Action
March 22 - April 12	Notice period, draft budget posted on LAFCO web site and available for review and comment on April 7
April 12	Public Hearing and adoption of draft budget
April 12- May 18	Draft budget along with draft apportionment amounts transmitted to agencies (cities and County) together with notice of public hearing for the final budget hearing
May 31	Public hearing and adoption of final budget
May 31- July 1	Final budget along with final agency apportionments transmitted to agencies; Auditor requests payment from agencies

WORK PLAN FOR FY 2006-2007

Service reviews and sphere of influence updates, facilitation of island annexations and LAFCO policies review/revision will continue to remain the top priority work items in the Fiscal year 2007. The Draft South Central County Service Review and Sphere of Influence recommendations will be available soon for public review. A public hearing on the report is scheduled for the next

LAFCO meeting in May. The North West County Service Review will be initiated in early fall. Staff will also begin review and update of spheres of influence for the fire and water districts in the County.

Staff will continue to work with cities interested in pursuing island annexations under the streamlined annexation process. Staff is currently working with the cities of Monte Sereno, Los Altos, Morgan Hill and Mountain View. The streamlined provisions in state law expire on January 1, 2007 and we expect other cities to take advantage of these provisions prior to that date.

Application processing activities are expected to continue at existing levels for all types of applications.

LAFCO's public information/communication aspect of the work load includes among other things, upgrading/revision of the LAFCO web site, conducting workshops, making presentations if requested by agencies, communities or other groups, maintaining and updating digital boundary maps for cities and special districts, and actively participating in CALAFCO conferences and workshops.

Other general work areas of LAFCO staff include administration of the LAFCO program, managing LAFCO records, reviewing and updating of LAFCO procedures when necessary, updating and maintaining the LAFCO database, participating in training activities, tracking LAFCO related legislation and preparing budgets and fee schedule revisions.

The LAFCO Annual Report which will be published at the end of the current fiscal year will detail the types of applications processed and various activities / projects that LAFCO has completed in the current year.

STATUS OF CURRENT YEAR BUDGET (FY 2006)

The approved budget for the current year is \$643,669. It is projected that there will be a savings of about \$216,776 at the end of this fiscal year.

Projected Year End Savings = Projected Year End Revenue - Projected Year End Expenses

Projected Year End Savings = \$645,857 - \$429,081

Projected Year End Savings = \$216,776

This savings amount will largely be due to the following:

1. Not having spent the amount (\$60,000) allocated as reserves

2. Having significant savings in the funds allocated for Salary and Benefits, Consultants and Intra-County Professional

The estimated savings of \$216,776, at the end of the current fiscal year of 2006, would be carried over to reduce the proposed FY 07 budget's costs for the cities and the County.

PROPOSED FY 2006-2007 BUDGET

At its February 2006 LAFCO meeting, the Commission appointed a Budget Sub-Committee composed of Commissioners Don Gage and John Howe and LAFCO staff. The Commission directed the budget sub-committee to develop a draft budget for Commission consideration. The budget sub-committee held two meetings to discuss issues related to the budget. The following issues were discussed at the sub-committee level and will be brought to the full commission for consideration and action at a future meeting date:

- Attendance and participation of alternate commissioners at LAFCO meetings
- CALAFCO conference attendance policy
- Per diem amount for LAFCO Commissioners and alternates
- LAFCO Fees revision

The first three issues will be addressed through the policy revisions and the last item related to fee revision will be brought as a separate item to the Commission at its May 31 meeting.

The proposed budget has been developed by the budget sub-committee.

The proposed budget for FY 2006-2007 is \$689,388. The proposed budget is slightly higher (about 7%) than the budget for the current year. A detailed itemization of the budget is provided below.

Object 1. SALARIES AND BENEFITS (\$307,637)

All three LAFCO staff positions will be staffed through the County Executive's Office. The proposed salary and benefits amount includes cost of living expenses and potential increase in benefits costs.

LAFCO Executive Officer \$101,469

The Executive Officer position is proposed to be increased from a 0.6 FTE level to 0.75 FTE. The proposed salary and benefits for the Executive Officer position at the 0.75 FTE is \$101,469.

LAFCO Analyst \$123,356

The LAFCO Analyst position would remain full time. The proposed salary and benefits for the LAFCO Analyst position is \$123,356.

LAFCO Clerk \$82,812

The County has created an unique classification for the LAFCO Clerk position titled " LAFCO Office Specialist". The LAFCO Clerk position would remain full time and the proposed salary and benefits for the position is \$82,812.

Object 2. SERVICES AND SUPPLIES

5258200 INTRA-COUNTY PROFESSIONAL \$112,400

LAFCO Counsel \$54,900

LAFCO would continue to contract with the Office of the County Counsel for this position on an as needed basis at an hourly rate of \$183 (for FY 07) for an estimated 300 hours annually.

LAFCO Surveyor \$52,500

The County Surveyor will continue to assist with map review and approval. It is estimated that about 400 hours of service will be required in the next fiscal year. The County Surveyor's Office charges at the rate of about \$125 per hour.

Miscellaneous Staffing \$5,000

This amount allows LAFCO to seek technical assistance from the County Planning Office on CEQA or other planning issues. LAFCO accesses data in the County Planning Office's GIS server. This item includes maintenance and technical assistance for GIS, if necessary.

5255500 CONTRACT SERVICES \$100,000

This item is allocated for hiring consultants to assist LAFCO with special projects. This year, the amount is allocated for hiring

consultants to upgrade the LAFCO web site and to develop and implement an archival system for LAFCO records.

5210100 FOOD \$750

This item is being maintained at \$750.

5220200 INSURANCE \$281

This item is based on an estimate provided by the County to cover general liability, auto liability and other miscellaneous coverages. Worker's Compensation is part of the payroll charge.

5250100 OFFICE EXPENSES \$2,000

This item is being maintained at \$2,000 and provides for the purchase of books, periodicals, small equipment and supplies throughout the year.

5255650 DATA PROCESSING SERVICES \$15,689

This item includes funds for web site maintenance (100 hours of software engineer time for a total of \$9,328), LAN services (\$6,087, which includes 64 hours of support) and three Lotus Notes Passports Software maintenance (\$274).

5225500 COMMISSIONER'S FEES \$5,400

This item includes a proposed increase in per diem from \$50 to \$100 for LAFCO Commissioners in the Fiscal Year 2007. This item also includes enough monies to make per diem payments to alternate commissioners, should a policy be adopted that alternate commissioners attend and participate in LAFCO meetings.

The actual per-diem increase must be approved by the Commission and adopted by resolution. Staff will bring these items to the Commission for consideration at the next LAFCO meeting in May.

5260100 PUBLICATIONS AND LEGAL NOTICES \$1,000

The budget for this item is being maintained at \$1,000. This amount is for publication of hearing notices as required by state law for LAFCO applications and other projects/ studies.

5245100 MEMBERSHIP DUES \$4,000

This amount provides for the proposed increase in membership dues to the statewide association, CALAFCO -- the California Association of LAFCOs. CALAFCO will consider a three-year phased approach to dues increase starting with Fiscal year 2007. The proposed phased fee increase starts with \$4,000 in Fiscal Year 2007 and increases to \$7,000 in the third year with a cap on further increases for five years except for cost of living adjustments. This fee proposal will be voted on by the CALAFCO Board in September and will take effect only if approved.

In recent years, CALAFCO has expanded its services with the CALAFCO web site, newsletter, CALAFCO Sacramento Office, legislative representation and member publications such as directories to name a few. In addition to these, CALAFCO is implementing other new programs such as the CALAFCO University, insurance and employee benefit options and research resources.

5250750 PRINTING AND REPRODUCTION \$1,500

An amount of \$1,500 is being budgeted for printing expenses for reports such as service review reports or other studies.

5285800 BUSINESS TRAVEL \$10,500

This item is for both staff and commissioners to attend conferences and workshops. It would cover air travel, accommodation, conference registration and other expenses at the conferences. CALAFCO annually holds a Staff Workshop and an Annual Conference that is attended by commissioners as well as staff. In addition, this item covers the travel expenses for commissioner's travel to the CALAFCO Board meetings. Commissioner Wilson is serving a second term on the CALAFCO Executive Board.

5285300 PRIVATE AUTOMOBILE MILEAGE \$1,200

This item provides for travel to conduct site visits, attend meetings, training sessions etc.

5285200 TRANSPORTATION AND TRAVEL (for use of County car) \$1,500

This item would allow for the use of a County vehicle for travel to conferences, workshops and meetings.

5281600 OVERHEAD \$27,531

This is an amount established by the County Controller's Office, for service rendered by various County departments that do not directly bill LAFCO for service. The FY 2007 costs include three elements:

First, the overhead includes the LAFCO share of the County's FY 2007 Cost Allocation Plan which is based on actual overhead costs from FY 2005 – the most recent year for which actual costs are available and include the following charges for LAFCO.

County Executive's Office: \$10,148
Office of Budget and Analysis: \$1,816
Controller-Treasurer: \$3,787
Employee Services Agency: \$1,879
General Services Agency: \$3,036
Other Central Services: \$70

Secondly, a "roll forward" of \$2,384 is applied which is calculated by comparing FY 2005 Cost Plan with FY 2005 actuals. Since actuals exceeded the Plan by \$2,384, this amount is added to the FY 2007 Plan. This is a State requirement.

And lastly, an additional adjustment of \$4,555 is being made in the FY 2007 Cost Plan and is meant to reflect the increase in actual PERS costs in FY 2007. By making the adjustment at this time, the County is hoping to "flatten out" the roll-forward that would be charged in 2 years, when comparing the FY 2007 Plan to the FY 2007 actuals.

5275200 COMPUTER HARDWARE \$2,000

This item is being maintained at \$2,000 and will be used for hardware upgrades / purchases.

5250800 COMPUTER SOFTWARE \$2,000

This item is for purchases of computer software that would be required for the program and is also being maintained at \$2,000.

5250250 POSTAGE \$2,000

This amount is budgeted for the cost of mailing notices, agendas, agenda packets and other correspondence and is being maintained at \$2,000.

5252100 TRAINING PROGRAMS \$2,000

This item provides for staff development courses and seminars.

5701000 RESERVES \$90,000

This item includes reserves for two purposes: litigation reserve – for use if LAFCO is involved with any litigation and contingency reserve - to be used to deal with any unexpected expenses. This item is being increased from \$60,000 to \$90,000 and is at about 13% of the proposed budget for Fiscal Year 2007. If used during the year, this account will be replenished in the following year. In the past years, LAFCO has not had to use the reserves and the amount has been rolled over to the following year to offset the costs.

3. REVENUES

4103400 Application Fees \$30,000

It is anticipated that LAFCO will earn about \$30,000 in fees from processing applications. This amount is based on the current level of application activity, which is much lower than previous years. Additionally, since LAFCO has adopted a fee waiver for island annexations, we anticipate lower revenues.

The actual amount earned from fees is not within LAFCO control and would depend entirely on the actual level of application activity.

4301100 Interest \$5,000

It is estimated that LAFCO will receive an amount of about \$5,000 from interest earned on LAFCO funds.

COST APPORTIONMENT TO CITIES AND COUNTY

Calculation of Net Operating Expenses

**FY 2007 Net Operating Expenses = Proposed FY 2007 Expenditures – Proposed FY2007 Fee Revenues
– Projected Year End Savings**

FY 2007 Net Operating Expenses = \$689,388 - \$35,000- \$216,776

FY 2007 Net Operating Expenses = \$437,612

The proposed net operating expenses for FY 07 is lower (by about \$65,628) than the current year net operating expenses. This cost decrease is mostly due to large fund balance expected at the end of the current year.

This would result in a corresponding decreased cost to the cities and the County from the previous year. The projected operating expenses for FY 2007 are based on projected savings and expenses for the current year and are not actual figures. It is therefore to be expected that there will be revisions to the budget as we get a better indication of current year expenses towards the end of this fiscal year. This could result in changes to the proposed net operating expenses for FY 2007 which could in turn impact the costs for each of the agencies.

Provided below is the draft apportionment to the agencies based on the proposed net operating expenses for FY 2007 (\$437,612).

Cost to Agencies

County of Santa Clara	\$218,806
City of San Jose	\$109,403
Remaining 14 cities in the County	\$109,403

Apportionment of the costs among the 14 cities will be based on percentage of the cities' total revenues and will be calculated by the County Controller's Office after LAFCO adopts the final budget in June. A draft of the estimated apportionment to the cities is included as Attachment B to provide the cities a general indication of the LAFCO costs.

ATTACHMENTS

Attachment A: Proposed Draft Budget for FY 2006-2007

Attachment B: Estimated Costs to Agencies Based on the Draft Budget

**DRAFT LAFCO BUDGET
FISCAL YEAR 2006 - 2007**

**ITEM NO. 6
Attachment A**

ITEM #	TITLE	APPROVED FY 05-06 BUDGET	END OF YEAR PROJECTIONS	PROPOSED FY 06-07 BUDGET
EXPENDITURES				
Object 1:	Salary and Benefits	\$321,329	\$253,654	\$307,637
Object 2:	Services and Supplies			
5258200	Intra-County Professional	\$107,320	\$87,000	\$112,400
5255500	Consultant Services	\$100,000	\$45,000	\$100,000
5210100	Food	\$750	\$750	\$750
5220200	Insurance	\$96	\$96	\$281
5250100	Office Expenses	\$2,000	\$1,500	\$2,000
5255650	Data Processing Services	\$12,193	\$5,000	\$15,689
5225500	Commissioners' Fee	\$1,500	\$1,500	\$5,400
5260100	Publications and Legal Notices	\$1,000	\$400	\$1,000
5245100	Membership Dues	\$2,161	\$2,161	\$4,000
5250750	Printing and Reproduction	\$1,500	\$1,000	\$1,500
5285800	Business Travel	\$9,000	\$9,000	\$10,500
5285300	Private Automobile Mileage	\$1,200	\$1,200	\$1,200
5285200	Transportation&Travel (County Car Usage)	\$1,500	\$1,000	\$1,500
5281600	Overhead	\$14,120	\$14,120	\$27,531
5275200	Computer Hardware	\$2,000	\$2,000	\$2,000
5250800	Computer Software	\$2,000	\$1,500	\$2,000
5250250	Postage	\$2,000	\$1,200	\$2,000
5252100	Staff Training Programs	\$2,000	\$1,000	\$2,000
5701000	Reserves	\$60,000	\$0	\$90,000
TOTAL EXPENDITURES		\$643,669	\$429,081	\$689,388
REVENUES				
4103400	Application Fees	\$35,000	\$30,000	\$30,000
4301100	Interest: Deposits and Investments	\$5,000	\$9,000	\$5,000
Total Interest / Application Fee Revenue		\$40,000	\$39,000	\$35,000
4600100	Cities (Revenue from other Agencies)	\$251,620	\$251,620	
5440200	County	\$251,620	\$251,620	
* Savings/Fund Balance from previous FY		\$100,429	\$103,617	\$216,776
TOTAL REVENUE		\$643,669	\$645,857	
NET LAFCO OPERATING EXPENSES		\$503,240		\$437,612
COSTS TO AGENCIES				
	County	\$251,620		\$218,806
	City of San Jose	\$125,810		\$109,403
	Other Cities	\$125,810		\$109,403

* This amount includes all the unspent funds and the unspent reserves

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2006/2007 LAFCO COST APPORTIONMENT
Estimated Costs to Agencies Based on the DRAFT Budget

LAFCO Net Operating Expenses for 2006/2007

\$437,612

Jurisdictions	Revenue per 2002/2003 Report*	Percentage of Total Revenue	Allocation Percentages	Allocated Costs
County	N/A	N/A	50.0000000%	\$218,806.00
San Jose	N/A	N/A	25.0000000%	\$109,403.00
Campbell	\$32,891,311	2.3481246%	0.5870311%	\$2,568.92
Cupertino	\$54,314,503	3.8775353%	0.9693838%	\$4,242.14
Gilroy	\$64,950,590	4.6368500%	1.1592125%	\$5,072.85
Los Altos	\$24,185,913	1.7266425%	0.4316606%	\$1,889.00
Los Altos Hills	\$6,976,235	0.4980364%	0.1245091%	\$544.87
Los Gatos	\$26,221,022	1.8719298%	0.4679825%	\$2,047.95
Milpitas	\$72,963,039	5.2088621%	1.3022155%	\$5,698.65
Monte Sereno	\$1,694,050	0.1209389%	0.0302347%	\$132.31
Morgan Hill	\$36,342,726	2.5945225%	0.6486306%	\$2,838.49
Mountain View	\$131,435,450	9.3832322%	2.3458081%	\$10,265.54
Palo Alto	\$305,150,000	21.7847872%	5.4461968%	\$23,833.21
Santa Clara	\$414,752,756	29.6093741%	7.4023435%	\$32,393.54
Saratoga	\$18,118,864	1.2935133%	0.3233783%	\$1,415.14
Sunnyvale	\$210,751,676	15.0456510%	3.7614128%	\$16,460.39
Total	\$1,400,748,135	100.0000000%	100.0000000%	\$437,612.00
Total Cities				\$109,405.00

* The 2002-2003 Report is the most current available to date. The 2003-2004 Report is expected to be published soon.
The cities' cost estimates will be revised according to the 2003-2004 Report in the Final Budget.